

**Senate Finance Committee
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Tax Reform Working Groups

Written Statement for the Record



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On behalf of the Association of Fundraising Professionals (AFP), we are pleased to provide a written statement regarding tax reform options and the unique impact that tax incentives have on philanthropic giving. AFP represents the individuals responsible for generating philanthropic funds, so we have a unique understanding of the impact of charitable giving and giving incentives.

As the Senate Finance Committee's working groups contemplate tax reform, please remember that philanthropy is an extraordinary American tradition that is the envy of countries around the world. The charitable deduction and government funding for charitable programs are symbols of our commitment to the impact and change that philanthropy creates—communities coming together to help solve problems. Altering that commitment is not something we should take lightly or do in the spur of the moment. We urge you to maintain that commitment by preserving the charitable deduction and considering ways to enhance philanthropy.

We hope our thoughts and perspective will prove helpful to the working group as it continues its examination of issues related to the nonprofit sector and tax reform.

Organizational Background

AFP is the largest association of charitable fundraisers in the world. In the U.S., we represent 30,000 individuals and organizations in all 50 states, representing every cause imaginable. Our members help to raise approximately \$115 billion annually, which represents more than one-third of all giving that takes place in the U.S.

Fundraising serves as the engine that drives the charitable sector by developing and maintaining relationships with donors and philanthropists who provide the necessary funding for education, social services, healthcare, medical research and the many other altruistic functions provided by the sector. Fundraising complements governmental support for charities and ensures the survival of the charitable sector when state, local and federal governments lack the budgetary means to help. AFP, in turn, fosters the development and growth of fundraising professionals through training and education and promotes high ethical standards in the fundraising profession.

Through the breadth of our membership, we have first-hand knowledge and understanding of charitable giving and the impact of tax policy that incentivizes giving in this country.

Sustain the Investment in the Charitable Sector

One of the defining characteristics of the United States is its strength of community and the way in which communities across America come together to address common needs and challenges. Communities act swiftly and decisively, based on an understanding of the environment in a way that those of us working at a national level sometimes struggle to do. It is this inherent sense of partnership and collaboration that drives successful charitable ventures.

Government is often a valuable partner. But Americans think of working with each other first, hand-in-hand with community groups and businesses, to solve a problem. That is the American mindset, which is then recognized and supported by government-created tax incentives, such as

the charitable deduction. In the American context, government is a supporting partner, and it can significantly help philanthropy, but it is NOT the primary player.

This unique American mindset and tax structure is the envy of the world. Charities in other countries are upset at the potential change in the charitable deduction because they look to this country as a model. A step backwards here is a step backwards for philanthropy across the globe.

The charitable deduction does not define the philanthropic sector. The defining characteristic of the charitable sector is what we achieve— impact in communities. The charitable deduction enhances that impact by encouraging and sustaining the culture of giving in our country.

The deduction's enhancement value is clear: a calculation of the deduction shows that *for every \$1 of potential tax revenue invested through the deduction, the public and communities across America receive approximately \$2.5 in philanthropic services*. That rate of return is extraordinary. We should be investing more in the deduction and encouraging additional philanthropy, not finding ways to limit or cap it.

The deduction is a powerful symbol of the American tradition and system of philanthropy. It represents a gesture of confidence on the part of the people by way of their elected representatives, an acknowledgement of the effectiveness of nonprofit and community action and a commitment to the longstanding tradition of philanthropy in America. The deduction binds together the interests and concerns of all of us for the betterment of our society.

To drastically change that symbol— to limit the deduction— is to alter that commitment. We must continue to support traditions, like philanthropy and the charitable deduction, that have served America for so long and for so well.

Limits or Changes to the Charitable Deduction Will Reduce Charitable Donations

Over the past few years, we have seen a number of proposals introduced that would limit or change itemized deductions, including the charitable deduction. Each of President Obama's Budgets has included a 28 percent cap on itemized deductions for high-income taxpayers. Proposals such as those found in former House Ways and Means Committee Chairman Camp's *Tax Reform Act of 2014* include other limits such as an adjusted gross income (AGI) floor for deductions.

Various studies indicate that we would see a decrease in giving if the charitable deduction were capped at 28 percent. An Indiana University Center on Philanthropy study found that charitable giving would decrease by \$0.82 billion in the first year but would jump to a loss of \$1.31 billion the following year if the Administration's 28 percent cap were imposed on itemized deductions.¹ In comparison, the Tax Policy Center estimated that charitable giving would decrease between \$1.7 billion and \$3.2 billion a year under this plan.² These figures are conservative compared to

¹ The Center on Philanthropy at Indiana University, "Impact of The Obama Administration's Proposed Tax Policy Changes on Itemized Charitable Giving," Oct. 2011.

² C. Eugene Steuerle, "The Tax Treatment of Charities & Major Budget Reform," Testimony before the Senate Committee on Finance, Hearing on Tax Reform Options: Incentives for Charitable Giving, Oct. 18, 2011.

the study done by Joseph Cordes, an economics professor at George Washington University, which estimated a loss in charitable contributions between \$2.9 billion and \$5.6 billion per year.³

These estimates are based upon the previous top marginal tax rate of 35 percent. The actual loss in charitable contributions could be worse in light of the new 39.6 percent tax rate. A 2013 study estimated a total loss of charitable giving from this cap of about \$9.4 billion in the first year.⁴ Regardless of the various estimates, it is clear that the Administration's 28 percent cap would result in a loss of vital charitable dollars.

We have concerns about the two percent adjusted gross income (AGI) floor included in former Chairman Camp's *Tax Reform Act of 2014*. This proposal also could dramatically decrease giving. The Congressional Budget Office (CBO) estimated a loss of \$3 billion per year to the sector if a two percent AGI floor were imposed.⁵ Another study indicates that this provision, among other changes to the charitable deduction, would cause individual charitable giving to decrease between 2.2 and 4.4 percent, which represents a potential \$5.3 to \$10.5 billion decrease in charitable contributions.⁶

It is worth noting that the floor was created to offset the cost of the so-called "non-itemizer deduction" that was proposed several years ago to allow individuals to take a charitable deduction even if they did not itemize on their federal income tax. Tax analysts contemplated various floor options and found that a floor could reduce charitable giving while simultaneously increasing federal revenue depending on the level of floor set and the number of individuals affected by the floor.⁷ Clearly, imposing a two percent AGI floor will have a significant detrimental impact on charitable giving.

We also are concerned about other proposals in the *Tax Reform Act of 2014*, such as altering the AGI limitations which would discourage cash gifts in favor of gifts of property while also limiting the deductions of certain contributions of property to basis, rather than fair market value. Taken together with the two percent AGI floor, these and other proposed changes could potentially eliminate the charitable deduction for 95 percent of all taxpayers and reduce individual charitable giving between 7 and 14 percent—a potential loss of \$16.8 to \$33.6 billion in charitable contributions.⁸

³ Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal*, Dec. 2011.

⁴ Arthur C. Brooks, "The Great Recession, Tax Policy and the Future of Charity in America," American Enterprise Institute, December 2013.

⁵ Statement of Frank J. Sammartino, Assistant Director for Tax Analysis, "Options for Changing the Tax Treatment of Charitable Giving," Senate Committee on Finance, Oct. 18, 2011.

⁶ Joseph Rosenberg, C. Eugene Steuerle, Ellen Steele, and Amanda Eng, "Preliminary Estimates of the Impact of the Camp Tax Reform Plan on Charitable Giving," Urban Institute Center on Nonprofits and Philanthropy and Urban-Brookings Tax Policy Center, August 2014.

⁷ Joseph J. Cordes, John O'Hare and C. Eugene Steuerle, "Extending the Charitable Deduction to Nonitemizers: Policy Issues and Options," *Charting Civil Society*, Brief #7, May 1, 2000.

⁸ Ibid

There are equally immense consequences to implementing other changes to the charitable deduction, including a loss of \$9.17 billion per year if the charitable deduction were replaced with a 12 percent tax credit.⁹

In the context of the federal budget and deficit reduction, the money gained by the federal government is paltry, but those amounts represent a significant loss to the sector in terms of impact and mission. These dollar amounts must be viewed in the context of the government's investment in the charitable sector and their philanthropic missions.

It is worth noting that high-income earners are more sensitive to changes in tax incentives. Given this sensitivity, reducing the charitable deduction for higher income earners will negatively impact the amount these donors give to charitable organizations, particularly since higher income taxpayers account for the majority of individual giving. According to the CBO report on the tax treatment of charitable giving, tax filers who reported AGI of at least \$100,000 in 2008 were responsible for well over half (about 58 percent) of all charitable giving by taxpayers.¹⁰

The Charitable Deduction Encourages a Culture of Selfless Giving

The charitable deduction is unique in that it is an incentive for people to give their money away. The mortgage deduction is for buying a house. Scholarship, education and health deductions relate to money spent on you and your family. But the charitable deduction involves a selfless, generous motivation—giving to a cause that might never directly benefit you.

It is not a tax cut—the charitable deduction creates leverage to allow individuals to maximize their charitable donations to organizations that serve America's communities and those in need. In 2013, Americans gave over \$335 billion to charitable causes with tax incentives such as the charitable deduction driving much of that robust philanthropic support.¹¹

Historically, the federal government has understood the vast impact that the charitable deduction has on charitable giving. During times of crisis, such as the natural disasters like Hurricane Katrina, the 2008 Midwest flooding and the 2010 Haiti earthquake, Congress regularly passes charitable giving incentives to make it easier for Americans to give donations and support to the nonprofits serving individuals, families and communities in need. These incentives essentially leverage the existing charitable deduction to provide even greater support.

Martin Feldstein, chairman of the Council of Economic Advisers under President Ronald Reagan, a professor at Harvard and a member of *The Wall Street Journal's* board of contributors, acknowledges this fact in a Feb. 20, 2013 article in *The Wall Street Journal* where he proposes limiting the tax savings from all deductions and two major tax exclusions to a two percent cap on an individual's adjusted gross income to reduce the deficit. However, he specifically exempts the charitable deduction from that calculation and states, "The existing charitable deduction in particular deserves to be maintained. Unlike other deductions and

⁹ Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal*, Dec. 2011.

¹⁰ Congressional Budget Office, "Options for Changing the Tax Treatment of Charitable Giving," May 2011.

¹¹ Giving USA Foundation 2014, Giving USA 2013 The Annual Report on Philanthropy for the year 2013.

exclusions, it does not benefit the taxpayer but provides important private support for universities, religious and cultural institutions, and hospitals.¹²

The American public understands the unique value of the charitable deduction and strongly supports its continued existence. In an April 15, 2011 Gallup poll, 71 percent opposed eliminating the charitable deduction to lower the overall income tax rate, and 68 percent opposed eliminating the charitable deduction to reduce the federal budget deficit.¹³ More supported the charitable deduction than the home mortgage interest deduction or state and local tax deduction.

These findings are echoed by the November 2012 public opinion poll commissioned by the United Way which found that nearly 80 percent of Americans believe reducing or eliminating the charitable tax deduction would have a negative impact on charities and the people they serve.¹⁴ Of those who indicate they would reduce charitable giving, the majority (62 percent) would have to reduce their contributions by 25 percent or more.¹⁵ Two out of every three Americans (67 percent) are opposed to reducing the charitable tax deduction.¹⁶

Deductibility is equally important for all charities. There are intermittent suggestions about changing deductibility rules based upon the type of nonprofit—a futile attempt to weigh the comparative value of arts organizations, nonprofit hospitals, universities, social services organizations and the various other entities that form the breadth of the sector. Setting a hierarchy of charitable causes is detrimental to the broad segment of the public who benefit from a similarly wide range of nonprofit services. Since 1917, the full range of charitable nonprofits have expressly been eligible for the charitable deduction, in keeping with this nation's strong tradition of incentivizing taxpayers to give to causes that *they* believe most will benefit the public good—it is a matter of choice and the freedom to support their personal causes.

The various types of charitable organizations that comprise the nonprofit sector do not exist or operate in silos. They are tightly connected through critical local partnerships that leverage shared resources and strengthen services to the public. Diminish one part of the sector, and the entire sector—and the public it serves—will suffer. Furthermore, creating separate deductibility rules for different types of charitable organizations only adds complexity to the tax code, something counter to the very concept of tax reform.

The Charitable Sector is Vital to Economic Growth and Recovery

Charities have an immensely positive impact on the economy. We need to remember the significance of nonprofits—something that is consistently overlooked in all of the sweeping statements that are being made about the sector and charitable giving. The data is conclusive: \$1.1 trillion generated every year in the form of jobs and services, 13.7 million individuals

¹² Martin Feldstien, "A Simple Route to Major Deficit Reduction," *The Wall Street Journal*, Feb. 20, 2013.

¹³ Jeffrey M. Jones, "Americans Oppose Eliminating Income Tax Deductions," Gallup Poll, Apr. 15, 2011.

¹⁴ United Way Worldwide, "The Charitable Deduction Poll," Nov. 2012.

¹⁵ Ibid

¹⁶ Ibid

employed (roughly 10 percent of the workforce) and 15.2 billion volunteer hours.¹⁷ The charitable sector represents a significant cog that drives economic recovery.

Charitable giving contracted during the economic downturn, yet the need for charitable services and programs increased exponentially during that time. Nonprofits provide vital necessities such as food, shelter, clothing, job training and placement and so many other services during such a great time of need.

These charitable services are called upon even more when local and state governments slash their budgets and reduce their own social services and other programs. These reduced state and local budgets, along with a decreased federal budget, negatively impact the charitable sector as much-needed grants and other government assistance are reduced or eliminated altogether. Over the past few years, it is clear that charities have been called upon to do much more with much, much less.

Expand the Investment in the Sector for Greater Returns

If anything the federal government should seek ways to increase its investment in the charitable sector. An easy (and fairly inexpensive) way for Congress to leverage existing tax incentives to enhance charitable giving is by extending the IRA Charitable Rollover provision beyond the end of this year. This provision, which would be made permanent by the *American Gives More Act of 2015*, allows donors age 70½ to exclude from their taxable income any IRA funds up to \$100,000 that have been withdrawn and transferred to a charity when filing a tax return. The provision expired on Dec. 31, 2014 after a brief 13 day extension when the *Tax Increase Prevention Act of 2014* was enacted.

Tax incentives such as the IRA Charitable Rollover provision play a vital role in encouraging donors to make gifts, especially as the contribution amounts become larger. The rollover provision is a powerful and unique way that donors can support charitable causes in their communities.

The IRA Charitable Rollover has worked very successfully over the last few years, but it would be far more effective if it were extended for a longer period of time, as opposed to a short-term provision requiring reinstatement every one or two years. We believe that the provision's impact could reach billions of dollars annually once the public becomes more familiar with it.

¹⁷ Katie Roeger, Amy Blackwood and Sarah Pettijohn, *The Nonprofit Almanac 2012*, The Urban Institute 2012.

Making the IRA Rollover provision permanent simplifies the tax code. During a Senate Finance Committee hearing on March 30, 2011, titled “How Do Complexity, Uncertainty and Other Factors Impact Responses to Tax Incentives?”, hearing panelist Robert Carroll, Former Deputy Assistant Secretary for Tax Analysis, U.S. Department of the Treasury, stated the following:

There are also a large number of provisions ó expiring provisions ó often extended a year at a time. In principle, the periodic extension of expiring provisions provides Congress an opportunity to reconsider and reevaluate their effectiveness, but the lack of their permanence may undermine the ability of taxpayers to rely upon and base decisions on the benefits they provide.

During his oral testimony, Dr. Carroll noted that these temporary provisions within the tax system, provisions that are constantly expiring and subsequently extended, add to the complexity of the tax system, which increases the bureaucratic burden on taxpayers and the federal government.

By enacting the *America Gives More Act of 2015* and making the IRA Rollover provision permanent, you would simplify the tax code while exponentially enhancing charitable giving.

Conclusion

We need to have many conversations in this country. We need to talk about how we could encourage more public-private partnerships to tackle issues head on. We need to discuss incentivizing more long-term social investment to address our core problems. We need to come together in dialogue about how we can mobilize resources more effectivelyô and not just financial resources, but human, social and other types of capital.

But the charitable deductionô this should be a conversation long settled. The deduction is effective and proven to work. It is part of the culture of America. It is a rare example of government coming together with the people to invest in a better future for all. You cannot simply limit or replace the deduction without losing something very vital in this country.

Thank you for the opportunity to submit these comments. We look forward to working with the tax reform working groups and their staffs on these issues and any others affecting the charitable sector.